

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 F*B-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 ABF-01 FS-01 FEA-02

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P R 231025Z JAN 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2866

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSIN OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS/ EFIN,IT

PASS TREASURY AND FRB

1. SUMMARY. DOLLAR HIT NEW HIGH AGAINST COMMERCIAL LIRA JANUARY 22 AT 671.125 LIRE PER DOLLAR. PRELIMINARY BALANCE OF PAYMENTS FIGURES *OR 1973 SHOW DEFICIT OF ?*LIMITED OFFICIA* USE

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\$341 MILLION. IN.ABSENCE OF COMPENSA*ORY*EUROMARKET BORROWING, DEFICIT WOULD HAVE BEEN \$4,824 MILLION.

BOI PLANS CONTINUE EUROMARKET FINANCING OF BALANCE OF PAY ENTS DEFICIT IN 1974. BOI OFFICIAL HINTED THAT FRENCH MAY SELL GOLD IN FREE MARKET. END SUMMARY.

2. LIRA WEAKENED SLIGHTLY AGAINST DOLLAR JANUARY 22 COMPARED TO PREVIOUS DAY, WITH AVERAGE ROME-MILAN RATE OF 671.125 COMPARED TO 670.50. RATE WAS NEW LOW FOR COMMERCIAL LIRA. ON OTHER HAND, FINANCIAL LIRA STRENGTHENED SLIGHTLY FROM PREVIOUS DAY'S AVERAGE RATE OF 702.50 TO 693.875. THUS, ALTHOUGH LIRA HELD FAIRLY STEADY AGAINST DOLLAR AND FRENCH FRANC ON JANUARY 22, IT DEPRECIATED SIGNIFICANTLY AGAINST DM AND ALSO SWISS FRANC, STERLING, BELGIAN FRANC AND GUILDER. WEIGHTED AVERAGE DEVALUATION OF LIRA SINCE SECOND DOLLAR DEVALUATION IN FEBRUARY 1973 ROSE SHARPLY ON JANUARY 22 TO 17.85 PER CENT FROM 14.37 PERCENT ON JANUARY 18 (LAST DAY ON WHICH ALL MAJOR EXCHANGE MARKETS WERE OPEN PRIOR TO FRENCH FRANC FLOAT).

3. HEAD OF FOREIGN EXCHANGE OPERATIONS AT BANK OF ITALY, ERCOLANI, TOLD EMBOFFS JANUARY 22 THAT BANK HAD NOT INTERVENED IN MARKET DURING FIRST DAY AFTER FRENCH FRANC FLOAT (JANUARY 21) WHEN LIRA FOLLOWED FRENCH FRANC DECLINE BY ABOUT 4 PER CENT AGAINST MOST CURRENCIES. ERCOLANI CHARACTERIZED FLOATING OF FRENCH FRANC AS "COMPETITIVE DEVALUATION", SINCE FRENCH HAD ADMITTED THAT MEASURE HAD BEEN TAKEN FOR INTERNAL SOCIAL REASONS IN ORDER TO STIMULATE EXPORTS AND PROTECT EMPLOYMENT LEVELS. HE THOUGHT THAT RECENT FRENCH RESERVE LOSSES DID NOT JUSTIFY FRENCH ACTION, PARTICULARLY COMPARED TO SIZE OF INTERVENTION WHICH ITALIAN AUTHORITIES HAD BEEN OBLIGED TO MAKE IN ORDER TO SUPPORT LIRA. HE HINTED THAT FRENCH MAY PLAN TO SELL GOLD IN FREE MARKET, BUT GAVE NO REASON WHY THEY SHOULD WANT TO DO THIS.

4. PRELIMINARY MONETARY MOVEMENTS DATA FRO ALL OF 1973 SHOW GLOBAL BALANCE OF PAYMENTS DEFICIT OF \$341 MILLION, FINANCED BY DECLINE ON NET OFFICIAL ASSESTS LIMITED OFFICIAL USE
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OF \$293 MILLION AND BY WORSENING IN NET FOREIGN POSITION OF COMMERCIAL BANKS BY \$48 MILLION. OFFICIAL GOLD AND CONVERATIBLE CURRENCIES DECLINED VERY MODESTLY BY \$27 MILLION. WORSENING IN NET OFFICIAL POSITION WAS MAINLY REFLECTED IN INCREASE IN SHORT-TERM LIABILITIES DUE TO BORROWING IN EARLY 1973 FROM BELGIAN NATIONAL BANK WHILE LIRA WAS STILL IN EC SNAKE.

5. RELATIVE STABILITY IN OFFICIAL GOLD AND CONVERTIBLE CURRENCY HOLDINGS WAS POSSIBLE DURING 1973

ONLY BECAUSE OF MASSIVE COMPENSATORY BORROWING. TOTAL EUROMARKET TERM LOAN BORROWING DURING 1973 AMOUNTED TO \$4,483 MILLION, INCLUDING \$1 BILLION RECEIVED IN LAST HALF OF DECEMBER FROM CCOP LOAN. SECOND AUTOSTRADA LOAN PROCEEDS STILL NOT RECEIVED. IF BOI HAD NOT STIMULATED EUROCURRENCY BORROWING, BALANCE OF PAYMENTS DEFICIT WOULD HAVE BEEN \$4,824 MILLION. BANK OF ITALY PLANNING TO CONTINUE TO OBTAIN COMPENSATORY FINANCING FROM EUROMARKET IN ORDER TO OFFSET EXPECTED DEFICITS IN 1974. CHASE MANHATTAN ECONOMIST IN ROME IN CONNECTION WITH ROCKEFELLER VISIT TOLD EMBOFF HE HAD HEARD THAT BANK HOPED TO BORROW \$4 BILLION EARLY IN 1974 FOR THIS PURPOSE. IN FACT, PRESS HAS ALREADY REPORTED \$500 MILLION IMI LOAN WHICH IS TO BE SIGNED AT END-JANUARY AND PROCEEDS RECEIVED EITHER LATE THIS MONTH OR IN FEBRUARY. ALSO, NEGOTIATIONS ARE UNDER WAY FOR LOAN BY ENI.

6. WHEN ASKED WHY RECENT ESTIMATES OF ITALY'S CURRENT ACCOUNT DEFICIT IN 1974 DIFFER SO WIDELY (OED PROJECTED DEFICIT OF \$3.5 BILLION COMPARED TO BOI PROJECTED DEFICIT OF \$6.8 BILLION), ERCOLANI REPLIED THAT OECD AND BOI AGREED THAT IMPACT OF PETROLEUM PRICE INCREASES WOULD BE ABOUT \$3.5 BILLION. HOWEVER, OECD HAS ASSUMED THAT CURRENT ACCOUNT IN 1974 WOULD OTHERWISE HAVE BEEN IN APPROXIMATE EQUILIBRIUM, WHILE BANK HAD EXPECTED LARGE DEFICIT EVEN IN ABSENCE OF PETROLEUM PRICE FACTOR. EMBASSY BELIEVES THAT BOI ASSUMPTION OF UNDERLYING DEFICIT IS CORRECT, ALTHOUGH BOI ESTIMATE OF \$6.8 BILLION IS PROBABLY TOO PESSIMISTIC. ERCOLANI ADMITTED THAT \$6.8 BILLION DEFICIT FIGURE WOULD SURELY HAVE TO BE REDUCED BY CORRECTIVE ACTION. ROUGH GUESS OF MORE
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REALISTIC FIGURE MIGHT BE ON ORDER OF \$5.5 BILLION MAXIMUM. VILPE

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